

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 7318**

**BILL NUMBER:** HB 1359

**DATE PREPARED:** Jan 16, 2002

**BILL AMENDED:**

**SUBJECT:** Health Insurance for Retired State Employees.

**FISCAL ANALYST:** Michael Molnar

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**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** This bill provides that a state employee who retires after June 30, 2002: (1) may obtain state employee health insurance coverage equal to the coverage offered to active state employees if the retired state employee pays the employee's share of the premium; and (2) remains eligible for coverage when the employee is eligible for Medicare.

**Effective Date:** July 1, 2002.

**Explanation of State Expenditures:** (Revised) The fiscal impact of this bill addresses two main issues: (1) costs associated with offering health insurance to retirees at a reduced cost; and (2) savings associated with hiring replacements for the vacated positions at reduced salaries.

The costs and savings are presented in two scenarios:

Current scenario - no additional benefits and 100% rehire of vacated positions;

Proposed scenario - health benefits for retirees at 93.9/6.1 state/employee cost split and 100% rehire of vacated positions.

The net fiscal impact of this proposal is based on the difference between the increase in health care costs to the state due to the additional retirees' health benefits and the reduction in compensation costs to the state for those individuals hired to replace the retirees. The additional cost of providing health care benefits to retirees is between \$33.5 M to \$39.4 M for the first year depending upon the number of retirees that purchase insurance. The additional reduction in salary and associated benefits for employees incentivized to retire totals \$12.4 M. Thus, the net cost of this bill is **\$21.1 M to \$27.0 M** annually.

	<i>Status Quo</i>	<i>Proposed Plan</i>	<i>Net Difference</i>
<i>Salary Savings</i>	\$25.5 M	\$37.9 M	<b>\$12.4 M</b>
<i>Health Insurance Cost</i>	\$0	\$33.5 M - \$39.4M	<b>-\$33.5M to -\$39.4 M</b>
<i>Actual Cost</i>			<b>\$21.1 M to \$27.0 M</b>

The range in the additional cost associated with the health insurance is based on two different assumptions regarding the level of increased demand due to the reduction in cost of health insurance for the retired employees.

**Current Scenario:** No additional benefits and 100% rehire of vacated positions

Under the current scenario the state does not pay any amount toward health insurance for state retirees. A state retiree may continue under the state health insurance program by paying 100% of the premium. The current scenario assumes that 10% of early retirement-eligible and 40% of regular retirement-eligible employees actually will retire. These numbers are based upon actuarial experience studies.

(1) Health Insurance Cost: The net gain in health benefits is assumed to be **\$0**.

(2) Salary Savings: An estimated 1,825 people will retire this year (early and regular combined). The state will save an estimated **\$25.5 M** in salary from these retirees (assuming that 100% of the vacated positions are filled with new hires). As new employees receive in-grade promotions and raises, this savings will decrease proportionally over time.

**Proposed Scenario** - Health benefits for retirees at 93.9%/6.1% state/employee cost split and 100% rehire of vacated positions.

(1) Health Insurance Costs: **\$33.5 M to \$39.4 M** for first year: (total may not add due to rounding)

This cost is distributed among the following groups:

- Early Retiree Eligibles that would have retired anyway and purchased state insurance: **\$6.4 M** (assuming 80% of retirees purchase insurance), **\$4.8 M** (assuming 60% of retirees purchase insurance),
- Early Retiree Eligibles that will retire due to insurance incentive and purchase state insurance: **\$6.4M**,
- Early Retiree Eligibles that would have retired anyway, do not currently have state insurance, but will purchase because of lower cost: **\$0.7 M**,
- Regular Retiree Eligibles that would have retired anyway and purchased state insurance: **\$17.2 M** (assuming 80% of retirees purchase insurance), **\$12.9 M** (assuming 60% of retirees purchase insurance)
- Regular Retiree Eligibles that will retire due to state insurance incentive and purchase state insurance: **\$8.1 M**,
- Regular Retiree Eligibles that would have retired anyway, do not currently have state insurance, but

will purchase because of lower cost: **\$0.7 M.**

These costs reflect an adverse experience factor due to providing benefits to older employees. Experience data from Anthem in 2000 indicated that retirees utilize \$2.37 of benefits for every \$1.00 of premium. This adverse experience factor would increase the premium of all state employees. The cost could be dispersed among the entire state employee pool in the form of higher premiums. The cost due to adverse experience may be lower than expected depending upon the status of individuals hired as replacements for retirees and actual costs associated with offering retiree benefits. The cost may vary depending upon the number of retirees that would have retired that purchase insurance - two scenarios are presented above.

It is important to note that these savings are for the first year of the additional health care benefit package. Consequently, some portion of this cost could potentially double in the second year and so on until a maximum level of retirees obtaining the increased benefits is reached. This maximum level would depend on the number of retirements of employees in this group, and the number of deaths of retirees in this group obtaining the increased benefits. Over time this package may cost the state a substantial amount of money.

**(2) Salary Savings: \$37.9 M:** Of this amount early retirees account for **\$12 M** and regular retirees account for **\$25.8 M** in savings. These savings are due to reduced salary and fringe benefit expenditures associated with filling vacated positions with lower paid employees. As new employees receive in-grade promotions and raises, this savings will decrease proportionally over time.

The base number for the current scenario includes 882.5 FTEs fewer than the proposed scenario. This difference is due to additional employees in the proposed scenario that are incentivized to retire with the new health insurance plan. These employees traditionally do not retire due to a desire to maintain health insurance at a low cost. These employees represent a difference of \$12.4 M in salary savings due to the employees being incentivized to retire.

#### *Background Information:*

Under the current retirement plan the state does not pay any portion of health insurance for retirees. Retirees may continue their coverage by paying the full premium on their own. HEA 1667-2001 mandates that the state offer, for a fee, health insurance to retirees 65 and older that is comparable to a Medicare Supplementary package with and without a prescription option.

There are currently 8,100 state employees eligible for retirement - early and regular - in 2002. On average 10% of employees eligible for early retirement, retire each year and between 35% and 40% of people eligible for regular retirement, do so each year (40% used for calculation purposes). Based upon these numbers an estimated 475 people will retire early and 1,340 will take regular retirement this year. Actuarial studies indicate that an additional 8% of early retirees and 15% of regular retirees would be incentivized to retire under this provision (882.5 retirees above status quo). It is assumed that 80% of retirees who would have retired anyway will purchase insurance under this plan and that 100% of retirees incentivized to retire will purchase insurance.

The state currently offers six regular health insurance plans. One plan is the traditional self-insured indemnity plan in which the state pays all the claims. The 2002 average state share of premiums for these plans are: \$309.71 per month (\$3,716.51 annually) for single coverage and \$817.68 per month (\$9,812.16 annually) for family coverage - [Note: this represents a 93.9%/6.1% state/employee cost share.] Other costs include

dental and vision plans for retirees. The average cost for dental coverage is \$136.35 annually for single and \$406.89 annually for family coverage. The annual cost for vision plan is \$47.53 for single and family coverage.

**Explanation of State Revenues:** Retirees will continue to pay the employee portion of health insurance costs.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** All state agencies.

**Local Agencies Affected:**

**Information Sources:** Keith Beesley, Attorney, State Personnel Department, (317) 232-3062; Doug Todd, Actuary, McCready & Keene Inc., (317) 576-1508.